

**REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA**

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**A REVIEW OF TAX INCREMENT REVENUES PROVIDED  
TO SCHOOL AND COMMUNITY COLLEGE DISTRICTS  
FROM REDEVELOPMENT PROJECT AREAS**

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**A Review of Tax Increment Revenues Provided  
to School and Community College Districts  
From Redevelopment Project Areas**

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**P-023, December 1990**

**Office of the Auditor General  
California**



Kurt R. Sjoberg, Auditor General (Acting)

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**State of California**  
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December 20, 1990

P-023

Honorable Ken Maddy, Vice Chairman  
Members, Joint Legislative Audit Committee  
State Capitol, Room 305  
Sacramento, California 95814

Dear Mr. Vice Chairman and Members:

The Office of the Auditor General presents its report concerning tax increment revenues provided to school and community college districts from redevelopment project areas.

We conducted this audit to comply with Item 0155-001-001 of the Budget Act of 1990.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kurt R. Sjoberg".

KURT R. SJOBERG  
Auditor General (Acting)

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## Summary

**Results in Brief** We were directed by the Budget Act of 1990 to examine a sample of 20 recently established redevelopment project areas and determine the extent to which school districts receive tax increment revenues pursuant to Sections 33401 and 33676 of the Health and Safety Code. Section 33401 permits redevelopment agencies to pay school and community college districts for financial burden or detriment caused by redevelopment, such as increased services the districts must provide. Section 33676 permits districts to receive a portion of the tax increment revenues attributable to the inflation-caused increases in assessed value in the project areas. Tax increment revenues are the property taxes collected on any increase in the assessed value of property that occurs after the redevelopment project area is established. We found the following conditions in our sample of school and community college districts:

- Twelve districts entered into agreements to receive payments under Section 33401 of the Health and Safety Code to alleviate financial burden or detriment caused by redevelopment. However, four of these districts do not appear to have received the payments that their agreements required;
- Nine districts received \$349,400 under Section 33676 of the Health and Safety Code during the three fiscal years ending 1989-90;

- Nineteen districts neither received payments nor have agreements to receive payments under the two code sections, losing the opportunity to receive an estimated \$45.2 million in revenues over the expected lives of the project areas; and
- Nine districts had their state aid reduced by \$353,500 because the tax increment revenues they received under Sections 33676 and 33401(b) of the Health and Safety Code were reported to the State as local property taxes.

**Background**

The Community Redevelopment Law allows the redevelopment of blighted areas which are unsafe and unfit, or have deteriorating buildings or properties. The redevelopment is financed, in part, from tax increment revenues. The Health and Safety Code authorizes the sharing of tax increment revenues between the redevelopment project areas and taxing entities. Taxing entities include school and community college districts. Under Section 33401 of the Health and Safety Code, school and community college districts may receive tax increment revenues to alleviate financial burden or detriment caused by redevelopment. Redevelopment causes a financial burden or detriment when a taxing entity must increase the services it provides in a project area. Unless a district receives payments or has an agreement with a redevelopment agency under Section 33401, Section 33676 of the Health and Safety Code states that districts shall elect to be allocated property tax revenues attributable to increases in the tax rate and to increases in the assessed property values caused by inflation.



**Districts  
That Have  
Agreements  
With  
Redevelopment  
Agencies or  
Received Tax  
Increment  
Revenues**

The Health and Safety Code authorizes school and community college districts to receive some portion of the tax increment revenues from redevelopment project areas. We reviewed 39 school and community college districts and found that, from fiscal years 1987-88 through 1989-90, 21 districts either have agreements with redevelopment agencies under Section 33401 of the Health and Safety Code or were paid tax increment revenues under Section 33676. Twelve of the 21 districts have agreements with redevelopment agencies under Section 33401. Some of these agreements require the redevelopment agencies to establish trust funds to pay for the districts' capital projects; some require that redevelopment agencies make other types of payments of tax increment revenues to the districts. We found, however, that three agencies appear to have failed to make the agreed-upon payments to four districts. The remaining 9 districts of the 21 were paid \$349,400 under Section 33676. We found, however, that two counties used incorrect methods in calculating the amounts that the districts were receiving.

**Districts  
That Did  
Not Have  
Agreements  
With  
Redevelopment  
Agencies or  
Receive Tax  
Increment  
Revenues**

The Health and Safety Code authorizes school and community college districts to receive some portion of the tax increment revenues under Section 33676 if they do not have agreements with redevelopment agencies under Section 33401 of the Health and Safety Code. However, 19 districts in our sample that did not have Section 33401 agreements did not receive tax increment revenues under Section 33676. Under the provisions of Section 33676, these districts could have received tax increment revenues from fiscal years 1987-88 through 1989-90. For example, in fiscal year 1989-90, the districts could have received approximately \$88,300. Moreover, the 19 districts could have received an estimated \$45.2 million over the 30- to 45-year expected lives of the redevelopment projects. Since the districts did not receive these revenues, Section 33676 provides that redevelopment agencies may receive these funds.

**Effect of Tax  
Increment  
Revenues on  
School and  
Community  
College  
Districts**

The Education Code requires the California Department of Education (CDE) and the California Community Colleges (CCC) to reduce the amount of general apportionment, which is a portion of state aid that school and community college districts receive, by the funds that districts receive from local property taxes. The county auditor-controllers for four of the six counties we sampled included \$353,500 of tax increment revenues received in the amounts they reported to the State as property tax revenues. The CDE and the CCC then reduced the general apportionments for nine districts in those counties. Both the CDE and the CCC believe that funds received under the Health and Safety Code, Section 33676, should reduce a district's general apportionment while funds received under Section 33401(b) should not reduce the general apportionment. A recently issued Attorney General's Opinion agrees that Section 33401(b) funds should not reduce a district's general apportionment. However, according to this opinion, funds received under Section 33676 should not reduce the general apportionment for a district.

**Recommen-  
dations**

To ensure that tax increment revenues are calculated correctly, the California Department of Education and the California Community Colleges should notify all county auditor-controllers that tax increment revenues that districts receive under Section 33676 of the Health and Safety Code should be based upon the difference between the base year assessed value adjusted for inflation (up to 2 percent per year) and the base year assessed value.

To ensure that school and community college districts receive tax increment revenues, the Legislature should amend Section 33676 of the Health and Safety Code to require school and community college districts to be allocated tax revenues when a redevelopment project area is established, unless an agreement is entered into or payments are received under Section 33401 of the Health and Safety Code.

To resolve the varying opinions concerning the reporting of funds received under Section 33676 of the Health and Safety Code, the Legislature should clarify whether funds received under Section 33676 should offset a district's general apportionment.

The CDE and the CCC should jointly develop consistent instructions on how the county auditor-controllers should report tax increment revenues to the State under Sections 33401 and 33676 of the Health and Safety Code.

**Agency  
Comments**

The California Community Colleges (CCC) stated that, although the CCC does not have authority to prescribe how county auditor-controllers account for tax increment revenues, the CCC will include the information in this report with forms sent to county auditor-controllers. In addition, the CCC will provide the same information to each community college district through correspondence to districts' chief business officers. The CCC stated that community college districts should automatically receive tax increment revenues pursuant to Section 33676 of the Health and Safety Code. The CCC also believes that Section 33676 revenues are local property taxes subject to offset in the calculation of state general apportionment. It further believes that districts are authorized to avoid this offset by agreeing to receive Section 33401 revenues.

The California Department of Education stated that it will work with the California Community Colleges to develop recommendations on how the county auditor-controllers should report tax increment revenues to the State under Sections 33401 and 33676 of the Health and Safety Code.

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## Introduction

California's Community Redevelopment Law allows the redevelopment of blighted areas. The Health and Safety Code states that blighted areas are unsafe, unfit, deteriorated, or economically dislocated buildings or properties. These blighted areas are a serious physical, social, or economic burden on the communities. Redevelopment is the planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation of blighted areas.

Each redevelopment agency may implement redevelopment activities within one or more of its project areas. A project area is established when a redevelopment plan for the area is adopted. As of June 30, 1989, 349 redevelopment agencies and 594 project areas existed in the State, according to the State Controller's Office.

### **Tax Increment Revenues**

After a redevelopment project area is established, the redevelopment agency derives the majority of its revenues from a portion of the property taxes levied each year on property located within the boundaries of its project areas. Section 33670 of the Health and Safety Code specifies how such property taxes are divided between the redevelopment agency and taxing entities that normally receive the revenues from property taxes. Taxing entities include counties, cities, school districts, and community college districts. At the time a project area is being established, the value of all taxable property within the boundaries of the project is determined. This value is the base-year assessed value.

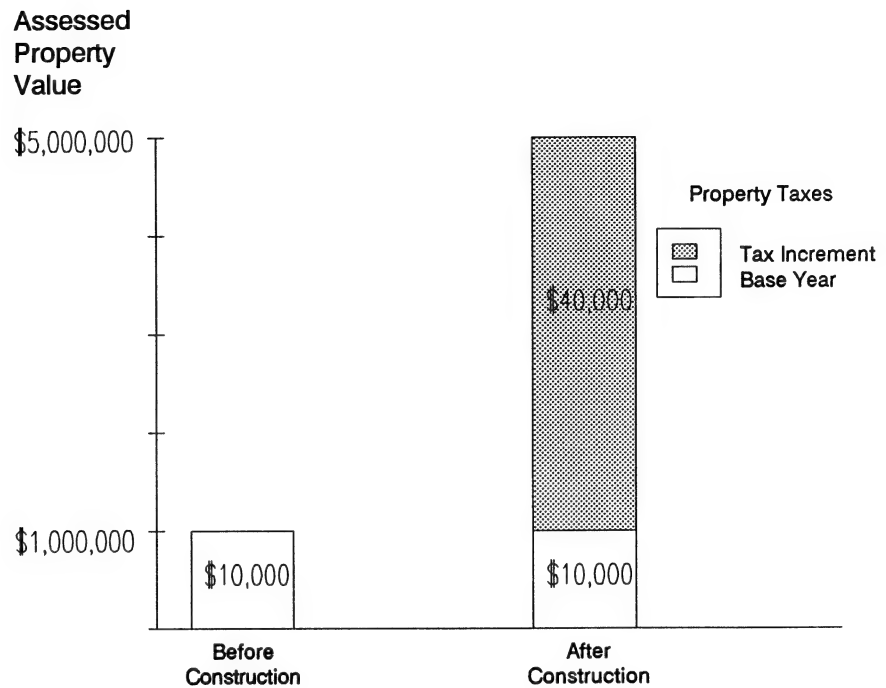
All taxes collected on the base-year assessed value go to the taxing entities; the redevelopment agency receives none of the taxes from the base-year assessed value.

In the following years, the assessed value of the property within the project areas may increase if property is sold or if new construction occurs. This increase in assessed value causes an increase in the property taxes within the project area. This tax increase, the difference between the base-year assessed value and subsequently assessed value, is known as the “tax increment.” The Health and Safety Code, Section 33670, provides that the tax increment that a project area creates is a source of revenue to a redevelopment agency.<sup>1</sup> For example, if the base-year assessed value is \$1 million, the property taxes would be \$10,000 using a tax rate of one percent as authorized by Proposition 13. If new construction occurred on the property, increasing the assessed value to \$5 million, the property tax would increase to \$50,000. The tax increment would be \$40,000, representing the difference between the base-year property tax of \$10,000 and the new tax of \$50,000. The \$10,000 would go to the taxing entities, and the \$40,000 difference would be a source of revenue for the redevelopment agency. The following chart illustrates how, in this example, the tax increment and the base-year property taxes are divided between a redevelopment agency and the taxing entities.

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<sup>1</sup>According to Section 33675 of the Health and Safety Code, a redevelopment agency is entitled to the tax increment revenue only for its outstanding debt.

**Chart 1 The Division of Property Taxes Between the Tax Increment and Base Year**



According to the State Controller's Office, redevelopment Agencies throughout the State received a total of \$878 million in tax increment revenues in fiscal year 1988-89. In our sample of 20 project areas, redevelopment agencies received approximately \$6.2 million in tax increment revenues in fiscal year 1988-89. Appendix A presents the tax increment revenues for each of the 20 project areas in our sample for fiscal years 1987-88, 1988-89, and 1989-90.

### Sharing Tax Increment Revenues

The Health and Safety Code, Sections 33401 and 33676, establishes various methods by which redevelopment agencies may share their tax increment revenues with taxing entities, including school and community college districts. For example, when property in a project area is exempt from taxes because it is owned by the

redevelopment agency, Section 33401(a) permits a redevelopment agency to pay taxing entities an amount of money in lieu of the taxes that the taxing entities would have received had the property not been tax exempt. Section 33401(b) permits a redevelopment agency to enter into agreements with taxing entities, or otherwise pay them, to alleviate any financial burden or detriment caused by redevelopment.

The Health and Safety Code defines financial burden or detriment as a net increase, caused by redevelopment, in the quality or quantity of a service that the affected taxing entity provides in the project area. For example, if new housing is constructed in a project area, the number of students in the project area's school district might increase accordingly. As a result, the district would need additional facilities for the additional students, causing a financial burden or detriment to the district. The law also defines financial burden or detriment as the loss of property tax revenues a taxing entity would have received or was reasonably expected to have received if the project area had not been established.

Section 33676 of the Health and Safety Code also allows taxing entities to receive a portion of a project area's tax increment revenues. Unless a taxing entity receives payments under Section 33401, any affected taxing entity may elect, and school districts and community college districts "shall elect," to be allocated all or a portion of the tax revenues attributable to increases in the rate of tax and to the inflation-caused increase in base-year assessed value of property in the project area, not to exceed inflation of two percent per year.

For fiscal year 1988-89, the State Controller's Office reported that school districts received approximately \$5.8 million, and community college districts received \$300,000 under Sections 33401 and 33676 of the Health and Safety Code.

**Scope and  
Methodology**

The Budget Act of 1990, Item No. 0155-001-001, directed the Office of the Auditor General to examine a sample of 20 recently established redevelopment project areas and determine the extent to which school districts received property tax increment revenues pursuant to Sections 33401 and 33676 of the Health and Safety Code. The Budget Act also required that we identify the purposes for which districts used these revenues. Because community college districts may also receive tax increment revenues under the two code sections, we also included them in our review.

Specifically, we reviewed relevant statutes in the Health and Safety Code, the Revenue and Taxation Code, and the Education Code. In addition, when planning this audit, we contacted staff of the State Controller's Office, the Department of Finance, the Legislative Analyst's Office, the California Department of Education, the California Community Colleges, and appropriate legislative policy and fiscal committees. Further, we interviewed local officials at county auditor-controllers' offices, redevelopment agencies, school districts, and community college districts in the counties we visited.

Using the Annual Report of Financial Transactions Concerning Community Redevelopment Agencies of California, Fiscal Year 1988-89, issued by the State Controller's Office, we selected 20 project areas from 102 statewide project areas that were recently established. We selected five project areas in Los Angeles County, five in Riverside County, four in Contra Costa County, four in Fresno County, and one each in San Joaquin County and Yolo County. In Appendix B, we describe the project areas including the date established and the size of the project area.

Eighteen redevelopment agencies administer the project areas in our sample, and 25 school districts and 14 community college districts are located in those project areas. Appendix C lists these redevelopment agencies, school districts, and community college districts.



We obtained figures for the tax increment revenues of the project areas in our sample for fiscal years 1987-88, 1988-89, and 1989-90. We also reviewed records at each county auditor-controller's office and at each redevelopment agency in our sample to determine the tax increment revenues that counties paid to school and community college districts under Sections 33676 and 33401 of the Health and Safety Code.

At the California Department of Education (CDE) and the California Community Colleges (CCC), we reviewed the general apportionment of state funds to school and community college districts. In addition, we reviewed the CDE's and the CCC's requirements for reporting tax increment revenues that school and community college districts receive under Sections 33676 and 33401. Then we determined whether any tax increment revenues were reported to the CDE and the CCC and whether the amounts reported affected the amount of general apportionment that districts received.

Finally, in addition to considering the written comments from the CDE and the CCC, we contacted officials from the county auditor-controllers, redevelopment agencies, school districts, and community college districts to discuss our report. In preparing this report, we also considered their comments.

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## **Chapter 1      Districts That Have Agreements With Redevelopment Agencies or That Received Tax Increment Revenues**

### **Chapter Summary**

The Health and Safety Code authorizes school and community college districts to receive some portion of the tax increment revenues from redevelopment project areas. We reviewed 39 school and community college districts and found that, from fiscal years 1987-88 through 1989-90, 21 districts either have agreements with redevelopment agencies under Section 33401 of the Health and Safety Code or were paid tax increment revenues under Section 33676. Twelve of the 21 districts have agreements with redevelopment agencies under Section 33401. Some of these agreements require the redevelopment agency to establish trust funds to pay for the districts' capital projects; some require that redevelopment agencies make other types of payments of tax increment revenues to the districts. However, three agencies appear to have failed to make the agreed-upon payments. The remaining 9 districts of the 21 were paid \$349,400 under Section 33676 in the three fiscal years ending 1989-90. We found, however, that two counties used incorrect methods to calculate the amounts that the districts received.

### **Agreements and Payments Under the Health and Safety Code**

The Health and Safety Code, Section 33401, allows redevelopment agencies to enter into agreements with school and community college districts to alleviate any financial burden or detriment caused by redevelopment. The code further provides that, in the absence of agreements or payments under Section 33401, districts must elect to be allocated tax increment revenues as specified by Section 33676 of the Health and Safety Code. Of the 39 school

and community college districts we sampled, 21 either entered into agreements or received payments under the two code sections.<sup>2</sup>

**Agreements  
Under  
Section 33401**

Twelve districts have agreements with redevelopment agencies under Section 33401 of the Health and Safety Code. Eight of these districts have agreements with the redevelopment agencies to establish trust funds for the deposit of the district's tax increment revenues. The other four districts have agreements requiring redevelopment agencies to pay through other mechanisms.

**Trust Funds**

The eight districts in our sample that have agreements requiring that redevelopment agencies make any necessary payments into trust funds are all within Riverside County.<sup>3</sup> According to these agreements, the money paid to the trust funds is to be used for the benefit of the districts. Generally, this money is maintained by either the county auditor-controller or the redevelopment agency. In each agreement, the amount paid into the trust fund is based on a percentage of the tax increment revenues that the redevelopment agency received for each project area. For example, the Palm Springs Unified School District and the Community Redevelopment Agency of the City of Palm Springs agreed that the agency will pay into this district's trust fund 50 percent of the share the district would have received from tax increment revenues. In fiscal year 1987-88, the redevelopment agency paid \$11,500. In the next fiscal year, the amount increased to \$18,400 and increased again in fiscal year 1989-90 to \$42,000.

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<sup>2</sup>Since some districts have territory in more than one project area, they may appear in both Chapter 1 and Chapter 2.

<sup>3</sup>Although an agreement between the Redevelopment Agency of the City of Indio and the Desert Sands Unified School District is not finalized, we have included the district in this section because this redevelopment agency has paid money into a trust fund.

Some agreements do not require payments into trust funds until a project's tax increment revenues increase to a certain level. For example, the agreement between the Desert Sands Unified School District and the Palm Desert Redevelopment Agency for Redevelopment Project Area No. 2 requires that no money be paid to the trust fund until the agency's tax increment revenues, less specified deductions, exceed \$3 million in any tax year. As of June 30, 1990, tax increment revenues for the Palm Desert Redevelopment Project Area No. 2 had not yet exceeded \$3 million, so the agency is not yet required to make payments into the district's trust fund.

The agreements between the districts and the redevelopment agencies also state how the districts may use the trust funds. All of the agreements dictate that trust funds be used for the benefit of the districts. Also, the agreements specify that the districts shall use the trust funds for capital projects or equipment, including rehabilitation, construction, or reconstruction of classrooms, gyms, athletic or recreational facilities, libraries, auditoriums, and administrative offices. Despite these restrictions, most of these agreements also allow the districts to use the funds for anything else that the districts and redevelopment agencies agree upon.

Two of the districts' agreements with the Community Redevelopment Agency of the City of Palm Springs additionally require that the agencies approve the districts' expenditures of funds.

From fiscal years 1987-88 through 1989-90, redevelopment agencies have paid a total of \$835,800 into trust funds for eight districts in our sample. However, only three districts actually received any money from the trust funds. These districts were the Palm Springs Unified School District, Coachella Valley Unified School District, and Desert Community College District. They received \$14,800 in fiscal year 1987-88, \$23,600 in fiscal year 1988-89, and \$209,500 in fiscal year 1989-90 and used the funds for capital projects, including repairing and refurbishing facilities.

Appendix D lists the payments that redevelopment agencies made during fiscal years 1987-88, 1988-89, and 1989-90 pursuant to trust fund agreements with the eight school and community college districts in Riverside County that had trust funds. Appendix E briefly describes the terms of those trust funds.

### **Other Types of Agreements**

For the four districts with other types of agreements under Section 33401 of the Health and Safety Code, the payments that the four districts are to receive from redevelopment agencies vary with the terms and conditions of their respective agreements.<sup>4</sup> For example, the Mendota Unified School District and the Mendota Redevelopment Agency, both located in Fresno County, agreed that the district would receive the same amount of funds each year that the district would have received under Section 33676 of the Health and Safety Code. In addition, the agreement designates 40 percent of the tax increment revenues from the project area for the district's projects if the project would benefit the project area or the immediate neighborhood in which the project is located and no other reasonable means of financing such improvements is available.

In another agreement that we determined was a Section 33401 agreement, the Los Angeles Community College District and the Monterey Park Community Redevelopment Agency agreed that each year the district will be paid a portion of the agency's tax increment revenues that the district would have been allocated under Section 33676. The agreement states that payments of another portion of the tax increment revenues are to be deferred. The deferred amount represents 100 percent of the district's share of the tax increment revenues, less specific deductions including

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<sup>4</sup>The San Joaquin auditor-controller erroneously paid funds he attributed to Section 33401 agreements to the Manteca Unified School District and San Joaquin Delta Community College District. We have not included these districts in this discussion because they did not have Section 33401 agreements.

the payments that would have been received under Section 33676. The district will not receive the deferred payments until fiscal year 1998-99, ten years after the date of the agreement. In fiscal year 1988-89, the redevelopment agency did not defer any payments. In fiscal year 1989-90, the redevelopment agency deferred payments of about \$6,600.

None of the four districts appear to have received the payments that their agreements with their three redevelopment agencies require. For example, the Alhambra School District has an agreement with the Monterey Park Community Redevelopment Agency. The agency was to deposit into a capital improvement fund the money that the district would have received under Section 33676 if the district had elected to receive Section 33676 funds. However, as of November 28, 1990, an official of the redevelopment agency stated that it has not made any payments to the fund even though the agency has received tax increment revenues for fiscal years 1988-89 and 1989-90. Under the terms of the agreement, the Alhambra School District should have received approximately \$4,400 for fiscal year 1988-89 and approximately \$9,000 for fiscal year 1989-90. An official of the Monterey Park Community Redevelopment Agency stated that the agency will review the agreements for the missed payments. We issued letters to the three redevelopment agencies recommending that they pay the districts as required by their agreements.

Appendix F presents the amount payable to each of the four districts under Section 33401 of the Health and Safety Code for fiscal years 1987-88, 1988-89, and 1989-90.

**Payments  
Under  
Section 33676**

In addition to the 12 districts who have agreements with redevelopment agencies in accordance with Section 33401 of the Health and Safety Code, another 9 districts received payments under Section 33676 of the Health and Safety Code. From fiscal

years 1987-88 through 1989-90, these 9 districts received \$349,400.<sup>5</sup> According to district officials, the 9 districts deposited their Section 33676 payments into their general funds. Appendix G lists the Section 33676 payments that each district received for the three fiscal years.

Section 33676 allows that, for each year that inflation occurs, these 9 districts will continue to receive payments larger than the payments of previous years as long as the projects still exist. In our sample, project areas are expected to exist from 30 to 45 years after their establishment.

Two of the six counties we visited, Contra Costa County and San Joaquin County, used incorrect methods to calculate the Section 33676 payments to four districts. The auditor-controller of Contra Costa County calculated the amounts of the payments based on the tax on the total assessed value of the property for the previous year adjusted for inflation minus the total assessed value. This approach erroneously introduces inflation on improvements into the Section 33676 calculation. Based on Section 33676, the auditor-controller should instead calculate districts' Section 33676 payments based on the tax on the base-year assessed value adjusted for inflation minus the base-year assessed value. This approach would result in a tax on cumulative inflation on the base-year assessed value, without regard to inflation on improvements. In his calculation, the auditor-controller also excluded all parcels that were affected by transfers, partial transfers, sale, reduction in value, or new construction in the current year. This approach results in an underpayment to the districts. Based on Section 33676, Contra Costa County's auditor-controller should include all parcels not publicly owned that have a value equal to or in excess of its base-year assessed value. The net result of the county's two approaches has been an underpayment to the districts. Under the

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<sup>5</sup>Although three districts did not adopt resolutions to be allocated Section 33676 funds, the auditor-controllers from San Joaquin County and Yolo County allocated funds to these districts.

method used by Contra Costa County, the payments under Section 33676 totaled approximately \$8,500 in the three-year period. We calculated that the payments should have been approximately \$13,400.

The auditor-controller of San Joaquin County calculated the tax under Sections 33670 and 33676 so that taxes may have been paid erroneously to taxing entities instead of the redevelopment agency. San Joaquin County's auditor-controller first calculated the current-year assessed value minus the base-year assessed value. This amount was multiplied by the tax rate, and the resulting amount was then multiplied by two percent. The county auditor-controller's approach could result in disbursing to the taxing entities some of the tax increment that should serve as a source of funds for the redevelopment agencies. San Joaquin County allocated this amount among the taxing entities, including school and community college districts. Like Contra Costa County, San Joaquin County should calculate the entities' Section 33676 payments based on the tax on the base-year assessed value adjusted for inflation minus the base-year assessed value. We issued letters to both Contra Costa County and San Joaquin County recommending that the auditor-controllers change their methods of calculating payments under Section 33676.

**Conclusion** In our sample of 39 school and community college districts, 21 districts either entered into agreements with redevelopment agencies under Section 33401 of the Health and Safety Code or received payments of tax increment revenues under Section 33676. During fiscal years 1987-88, 1988-89, and 1989-90, 12 of the 21 districts had Section 33401 agreements with redevelopment agencies to alleviate financial burden or detriment caused by redevelopment. Some agreements require that districts establish trust funds to pay capital projects; some require other types of payments. The other 9 districts received payments totaling \$349,400 under Section 33676 for the three fiscal years ending 1989-90. We found, however, that two counties used incorrect methods of calculating the amounts that the districts were receiving.



**Recommendation** To ensure that tax increment revenues are calculated correctly, the California Department of Education and the California Community Colleges should notify all county auditor-controllers that tax increment revenues that districts receive under Section 33676 of the Health and Safety Code should be based on the tax on the base-year assessed value adjusted for inflation (up to two percent per year) minus the base-year assessed value.

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## **Chapter 2     Districts That Did Not Have Agreements With Redevelopment Agencies or Receive Tax Increment Revenues**

### **Chapter Summary**

The Health and Safety Code authorizes school and community college districts to elect to receive some portion of the tax increment revenues under Section 33676 if they do not have agreements with redevelopment agencies under Section 33401 of the Health and Safety Code. However, 19 districts in our sample that did not have Section 33401 agreements did not receive tax increment revenues under Section 33676. Under the provisions of Section 33676, these districts could have received tax increment revenues from fiscal years 1987-88 through 1989-90. For example, in fiscal year 1989-90, the districts could have received approximately \$88,300. Moreover, the 19 districts could have received an estimated \$45.2 million over the 30- to 45-year expected lives of the redevelopment projects. Since the districts did not receive these revenues, Section 33676 provides that redevelopment agencies may receive these funds.

### **Many Districts Did Not Receive Tax Increment Revenues Under Health and Safety Code, Section 33676**

Since 1985, the Health and Safety Code has required that school and community college districts elect to receive an allocation of a project area's tax increment revenues under Section 33676 unless they enter into agreements with redevelopment agencies to alleviate a financial burden or detriment under Section 33401. Specifically, Section 33676 states that, unless school and community college districts enter into agreements with or receive payments from redevelopment agencies in accordance with Section 33401, these districts shall elect to be allocated all or a portion of a redevelopment project's tax increment revenues under Section 33670 attributable to increases in the assessed property values caused by inflation or an increase in tax rate.

To receive Section 33676 payments, a district must first adopt a resolution electing to be allocated taxes before a redevelopment plan is adopted for a project area. The district must then transmit the resolution to the city council or county board of supervisors, the redevelopment agency, and the county officials who levy and collect taxes for the districts. When county officials receive this resolution, the law requires that school and community college districts receive their allocations of tax increment revenues at the same time that they receive their other property tax revenues. The law also provides, however, that school and community college districts may at any time later elect to discontinue receiving these funds by rescinding their resolution.

During the last three fiscal years, 19 districts in our sample did not have agreements with redevelopment agencies under Section 33401, yet they did not receive tax increment revenues as authorized under Section 33676 of the Health and Safety Code.<sup>6</sup> The 11 school districts and 8 community college districts are located in Contra Costa, Fresno, Los Angeles, and Riverside counties.<sup>7</sup>

Under Section 33676, these districts could have received tax increment revenues in fiscal years 1987-88 through 1989-90. For example, in fiscal year 1989-90, the districts could have received approximately \$88,300. Further, the districts could have received funds each year that the project area is in existence. For instance, the San Ramon Valley Unified School District could have received \$16,200 in Section 33676 funds from the Danville Downtown Redevelopment Project Area in fiscal year 1989-90.

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<sup>6</sup>Because some districts have territory in more than one project area, they may appear in both Chapter 1 and Chapter 2.

<sup>7</sup>Sanger Redevelopment Agency and Sanger Redevelopment Project Area and their associated districts are not included here because the project area was established before the Health and Safety Code required that districts elect to receive Section 33676 funds. (See page 19 for a further explanation.)

Based on the 30- to 45-year expected lives of the projects in our sample, we estimate that the 19 districts would have received approximately \$45.2 million if they had elected to receive tax increment revenues. This represents \$37.3 million for 5 districts in Contra Costa County, \$478,000 for 2 districts in Fresno County, \$5.2 million for 13 districts in Los Angeles County, and \$2.2 million for one district in Riverside County.

When districts do not receive these revenues, Section 33676 provides that the redevelopment agencies for each project area may receive them.

To estimate the lost revenues for the districts, we made the following assumptions. We assumed that the base-year assessed value of property in the project area would increase two percent annually. We also assumed that both the one percent rate of tax for real property, established in Article XIII of the State Constitution, and the district's proportional share of the property tax revenues would remain at their fiscal year 1989-90 level. Finally, we assumed that payments would be made over the lives of the projects.

Appendix H presents the tax increment revenues that the districts could have received under Section 33676 for each project area in the three fiscal years ending fiscal year 1989-90.<sup>8</sup> Also, the appendix presents the estimated lost revenue for each district over the expected lives of the project areas.

**Reasons for  
Not Receiving  
Section 33676  
Funds**

Of the 19 districts that did not receive funds under Section 33676 of the Health and Safety Code, 14 did not adopt resolutions electing to receive tax increment revenues. We asked the districts that did not adopt resolutions why they had not elected to receive tax increment revenues, and we were given a variety of reasons.

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<sup>8</sup>In Chapter 3, we discuss how funds received under Section 33676 may affect state aid to districts.

For example, three districts did not seek Section 33676 funds because they felt that the amount of the tax increment revenues would be insignificant or that the area of the project within the district was very small.

In another example of reasons for not adopting resolutions, officials at the Pittsburg Unified School District in Contra Costa County and the Whittier Union High School District in Los Angeles County stated that their districts did not adopt resolutions because they believed the State would have reduced their state aid by the same amount.

The San Ramon Valley Unified School District in Contra Costa County provided another reason for not adopting a resolution. According to the district superintendent, the school board had an agreement with the City of San Ramon, not the redevelopment agency, wherein the city agreed to provide funds to plan, construct, and maintain recreational facility improvements on district-owned property. According to another district official, as of October 11, 1990, the district had received approximately \$1.45 million for the improvements. This agreement did not provide for any payment of tax increment revenues to the district.

In addition to the 14 districts that did not adopt resolutions, 5 districts adopted resolutions electing to receive tax increment revenues, but either they did not transmit them to the appropriate county officials or those officials did not receive them. For example, the Los Angeles County auditor-controller, who is responsible for allocating tax increment revenues, stated that the resolutions from four of these districts were not received in his office. However, according to district officials, three districts transmitted the resolutions to the auditor-controller. These districts are the Little Lake City School District, the Mount San Antonio Community College District, and the Cerritos Community College District. A fourth district, the Citrus Community College District, could not provide documentation to show whether or not it transmitted the resolution to the auditor-controller.

The sample we reviewed includes two additional districts that did not receive Section 33676 funds although they did not have Section 33401 agreements. The districts are the Sanger Unified School District and the State Center Community College District, both located in the Sanger Redevelopment Project Area in Fresno County. This project area was established in 1983. Before 1985, Section 33676 did not require the districts to elect to be allocated tax increment revenues from project areas. Instead, Section 33676 gave districts the option of electing to receive Section 33676 funds. Had they elected to receive Section 33676 funds over the 45-year project life, the Sanger Unified School District would have received approximately \$3.4 million, and the State Center Community College District would have received approximately \$570,000.

**Conclusion** The Health and Safety Code requires that school and community college districts elect to receive some portion of the tax increment revenues under Section 33676 if they do not have agreements with redevelopment agencies under Section 33401. Nineteen of the districts in our sample did not receive tax increment revenues under Section 33676 although they did not have Section 33401 agreements. Thus, these districts lost the opportunity to receive approximately \$45.2 million over the expected lives of the redevelopment project areas.

**Recommendation** To ensure that the school and community college districts receive tax increment revenues, the Legislature should amend Section 33676 of the Health and Safety Code. Specifically, the law should require school and community college districts to be allocated tax revenues when a redevelopment project area is established unless the district has an agreement to receive tax increment revenues under Section 33401 or elects not to receive funds under Section 33676.

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## **Chapter 3    The Effect of Tax Increment Revenues on School and Community College Districts' State Aid**

### **Chapter Summary**

The Education Code requires the California Department of Education (CDE) and the California Community Colleges (CCC), to reduce the amount of the general apportionment, which is a portion of the state aid that school and community college districts receive, by the amount of funds that districts receive from local property taxes. The county auditor-controllers for four of the six counties we sampled included \$353,500 of tax increment revenues received in the amounts they reported to the State as property tax revenues. The CDE and the CCC then reduced the general apportionments for nine districts in those counties by the amounts reported. Both the CDE and the CCC believe that funds received under the Health and Safety Code, Section 33676, should reduce a district's general apportionment while funds received under Section 33401(b) of the code should not reduce the general apportionment. A recently issued Attorney General's Opinion agrees that Section 33401(b) funds should not reduce a district's general apportionment. However, according to this opinion, funds received under Section 33676 should not reduce the general apportionment for a district.

**State Funds  
Are Reduced  
by Local  
Revenues**

School and community college districts receive funds from numerous sources, including the State. The State provides funds through the general apportionment process as described in the Education Code. The CDE calculates the general apportionments for school districts, and the CCC calculates the general apportionments for community college districts.

Before a district's general apportionment can be determined, the maximum amount of revenue that a school and community college district can collect and use for general purposes during the fiscal year must be determined. For school districts, the maximum amount is called the "revenue limit" and is calculated by the responsible county superintendent of schools. For community college districts, the maximum amount is called the "fiscal year revenues" and must be calculated by the CCC. After approving the revenue limits, the CDE and the CCC calculate each district's general apportionment less certain revenues specified in the Education Code. These include property taxes, student enrollment fees at local community colleges, and miscellaneous revenues such as "in-lieu taxes."

Property tax revenues and other types of local revenues are reported to the State by county auditor-controllers. However, the CDE's and the CCC's instructions to county auditor-controllers do not state whether the auditor-controllers are supposed to include tax increment revenues in the amounts they report as local revenues.



**Varying  
Opinions on  
Whether Tax  
Increment  
Revenues  
Should Reduce  
General  
Apportionment**

The CDE, the CCC, and the attorney general have issued varying opinions on whether tax increment revenues should reduce a district's general apportionment.

**The Attorney General's Opinion**

The Attorney General's Opinion (73 Ops. Atty. Gen. 324), issued October 25, 1990, discusses the question of whether a school district's revenues received under the Health and Safety Code, Sections 33401 and 33676, should offset its general apportionment. The opinion concludes that in-lieu taxes, mitigation revenues, and tax increment funds given by a redevelopment agency to a school district according to Sections 33401 and 33676 do not constitute property tax revenues received pursuant to the Revenue and Taxation Code and should not be deducted from a school district's general apportionment under Section 42238 of the Education Code.

During the last three fiscal years, the auditor-controllers of four counties in our sample reported as property tax revenues to the State tax increment revenues received by school and community college districts. The CDE and the CCC subsequently reduced these districts' general apportionments by the amount of tax increment revenues reported. Based on the Attorney General's Opinion, the nine districts in these four counties had their general apportionments unnecessarily reduced by a total of \$353,500 over the last three fiscal years ending 1989-90. Appendix I lists the tax increment revenues districts received and the amounts the auditor-controllers reported to the State.

**The CDE's and the CCC's Opinions**

On October 31, 1990, the assistant general counsel of the CDE stated that funds received by a school district under Section 33401(a) of the Health and Safety Code are in-lieu of property taxes and must partially offset state aid as miscellaneous income under Section 42238(h)(5) of the Education Code. None of the districts

in our sample reported receiving funds under Section 33401(a). The Attorney General's Opinion does not discuss whether the revenues received under Section 33401(a) could be considered miscellaneous income.

The assistant general counsel of the CDE also stated that neither state law nor CDE policy requires a reduction to state aid for the funds or value received under Section 33401(b) of the Health and Safety Code. In our sample, the San Joaquin County auditor-controller reported to the CDE that one district, the Manteca Unified School District, received approximately \$2,000 of Section 33401(b) revenues for fiscal years 1988-89 and 1989-90. After receiving the reports for the two fiscal years, the revenues were incorrectly offset against the district's general apportionment by the amount reported.

Concerning state aid to community college districts, the CCC believes that any revenues received under Section 33401 of the Health and Safety Code should not offset the amount of state aid that a community college district receives. The San Joaquin County auditor-controller reported that San Joaquin Delta Community College District received approximately \$2,100 of Section 33401(b) revenues for fiscal years 1988-89 and 1989-90. The district's general apportionment was then incorrectly reduced by the Section 33401(b) revenues reported.

The CCC and the CDE have also issued opinions on whether funds received under Section 33676 of the Health and Safety Code should offset state aid. The CCC believes that funds received under Section 33676 should be offset under Section 84700(b) of the Education Code. The CDE believes that funds received under Section 33676 should be offset against state aid as property tax revenues under Section 42238(h)(1) of the Education Code. Further, the CDE believes that funds received under Section 33676 constitute property tax revenues since the funds are paid with, and indistinguishable from, base property tax revenues pursuant to the Revenue and Taxation Code. In contrast, the Attorney General's Opinion states that these funds are not received pursuant to the Revenue and Taxation Code but are received pursuant to the Health and Safety Code.

Thus, based on the CDE's and the CCC's opinions, all funds received under Section 33676 of the Health and Safety Code should be reported and should reduce each district's general apportionment by the amount that the districts received. Nine districts we sampled received approximately \$349,400 of Section 33676 funds. County auditor-controllers reported these funds to the CDE and the CCC for all nine districts. After receiving the reports, the CDE and the CCC offset all of these districts' general apportionments by the amounts reported.

**The Effects  
on General  
Apportionment  
for the Districts  
That Did Not  
Elect To Be  
Allocated  
Section 33676  
Funds**

In Chapter 2, we reported that 19 districts did not elect to receive tax increment revenues under Sections 33401 and 33676 of the Health and Safety Code. These districts could have received an estimated \$45.2 million over the expected lives of the projects. Depending on which opinion is used, the amount of the general apportionment the State provides to districts is affected. For example, if Section 33676 funds should offset general apportionments as the CDE and the CCC believe they should, the State's contribution to the general apportionments would have been reduced by the amount that the districts would have received had they elected to be allocated Section 33676 funds.<sup>9</sup>

**Conclusion**

The Education Code requires the California Department of Education and the California Community Colleges to reduce the amount of state aid that school and community college districts receive by the amount of funds that districts receive from local property taxes. However, the CDE's and the CCC's instructions

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<sup>9</sup>The funds the State provides to school and community college districts can be further influenced by Article XVI of the State Constitution, which requires a minimum amount of state funds that districts must receive each year.

to county auditor-controllers do not state whether the auditor-controllers are supposed to include tax increment revenues in the amount they report as local revenues. To further confuse the issue, varying opinions exist about whether funds received under Section 33676 of the Health and Safety Code should reduce a district's general apportionment. The Attorney General's Opinion states that funds received under Section 33676 should not reduce a district's general apportionment. Both the CDE and the CCC believe that the Section 33676 funds should reduce a district's general apportionment. The attorney general, the CDE, and the CCC agree that funds received under Section 33401(b) of the Health and Safety Code should not reduce a district's general apportionment. In our sample, the county auditor-controllers for four of the six counties reported \$349,400 of Section 33676 funds and \$4,100 of Section 33401 funds in the amounts they reported to the State as property tax revenues. The CDE and the CCC then reduced the state aid of the nine districts in those four counties by the amounts reported.

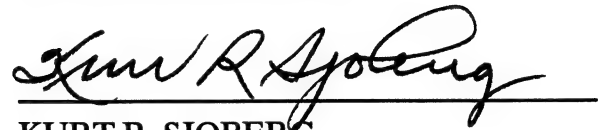
**Recommendations**

To resolve the varying opinions concerning the reporting of funds received under Section 33676 of the Health and Safety Code, the Legislature should clarify whether funds received under Section 33676 should offset a district's general apportionment.

To ensure that tax increment revenues are calculated correctly, the California Department of Education and the California Community Colleges should jointly develop consistent instructions on how county auditor-controllers should report tax increment revenues to the State under Sections 33401 and 33676 of the Health and Safety Code. The CDE and the CCC should provide these instructions to the county auditor-controllers.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

A handwritten signature in black ink, reading "Kurt R. Sjoberg", is written over a horizontal line.

KURT R. SJOBERG  
Auditor General (Acting)

Date: December 17, 1990

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## Appendix A

### Tax Increment Revenues for 20 Redevelopment Project Areas Fiscal Years 1987-88 Through 1989-90

	1987-88	1988-89	1989-90
<u>Contra Costa County</u>			
Danville Downtown	\$ 283,500	\$ 332,100	\$ 335,400
North Richmond	NA	0	26,500
San Ramon	NA	453,200	687,300
West Pittsburg	NA	NA	235,000
<u>Fresno County</u>			
Huron	24,700	27,300	69,100
Mendota No. 2	NA	NA	11,700
Parlier	200,100	288,700	295,900
Sanger	501,400	471,600	511,000
<u>Los Angeles County</u>			
Central Commercial	NA	28,200	602,400
Foothill Corridor	8,900	14,300	44,000
Norwalk No. 2	NA	55,000	61,700
Sierra Vista	64,900	92,400	340,500
West Altadena	8,600	45,600	76,300
<u>Riverside County</u>			
Baristo-Farrell	103,800	148,100	415,400
Date Capital	384,700	547,500	657,300
Palm Desert No. 2	NA	1,178,200	2,082,000
Riverside County No. 2-1987	NA	46,900	93,400
Riverside County No. 4 (Supervisorial District 4)	127,100	329,200	465,100
<u>San Joaquin County</u>			
Manteca No. 1	15,200	295,500	969,000
<u>Yolo County</u>			
West Sacramento No. 1	988,000	1,883,300	3,493,100
<b>Total</b>	<b>\$2,710,900</b>	<b>\$6,237,100</b>	<b>\$11,472,100</b>

Source: Various audited and unaudited documents and records.

Note: NA is used when the redevelopment agency's project area was not yet eligible to receive tax increment revenue.

**Appendix B**

**Our Sample of 20  
Redevelopment Project Areas**

	Date Established	Estimated Date of Completion	Number of Acres
<u>Contra Costa County</u>			
Danville Downtown	1986	2016	80
North Richmond	1987	2027	900
San Ramon	1987	2032	121
West Pittsburg	1987	2027	1,550
<u>Fresno County</u>			
Huron	1985	2030	80
Mendota No. 2	1988	2033	202
Parlier	1985	2025	800
Sanger	1983	2028	664
<u>Los Angeles County</u>			
Central Commercial	1987	2022	184
Foothill Corridor	1986	2016	231
Norwalk No. 2	1987	2022	374
Sierra Vista	1986	2016	477
West Altadena	1986	2031	80
<u>Riverside County</u>			
Baristo-Farrell	1986	2016	483
Date Capital	1985	2025	1,715
Palm Desert No. 2	1987	2027	3,120
Riverside County No. 2-1987	1987	2027	635
Riverside County No. 4	1986	2021	20,439
<u>San Joaquin County</u>			
Manteca No. 1	1986	2026	1,242
<u>Yolo County</u>			
West Sacramento No. 1	1986	2026	6,800

Source: Generally, data is from the Annual Report of Financial Transactions Concerning Community Redevelopment Agencies of California, Fiscal Year 1988-89, issued by the State Controller's Office.

## Appendix C

### Redevelopment Agencies, Project Areas, School Districts, and Community College Districts in Our Sample

County/Redevelopment Agency	Project Area	School District	Community College District
<u>Contra Costa County</u>			
Contra Costa County Redevelopment Agency	North Richmond Redevelopment Project Area	Richmond Unified School District	Contra Costa Community College District
	West Pittsburg Redevelopment Project Area	Mount Diablo Unified School District Pittsburg Unified School District	Contra Costa Community College District
Community Development Agency of the City of Danville	Danville Downtown Redevelopment Project Area	San Ramon Valley Unified School District	Contra Costa Community College District
Redevelopment Agency of the City of San Ramon	San Ramon Redevelopment Project Area <sup>1</sup>	San Ramon Valley Unified School District	Contra Costa Community College District
<u>Fresno County</u>			
Huron Redevelopment Agency	Huron Redevelopment Project Area	Coalinga-Huron Unified School District	West Hills Community College District
Mendota Redevelopment Agency	Redevelopment Project No. 2	Mendota Unified School District	West Hills Community College District
Redevelopment Agency of the City of Parlier	Parlier Redevelopment Project <sup>2</sup>	Parlier Unified School District	State Center Community College District
Sanger Redevelopment Agency	Sanger Redevelopment Project Area <sup>3</sup>	Sanger Unified School District	State Center Community College District
<u>Los Angeles County</u>			
Baldwin Park Redevelopment Agency	Sierra Vista Redevelopment Project	Baldwin Park Unified School District West Covina Unified School District	Mount San Antonio Community College District
Claremont Redevelopment Agency	Foothill Corridor Redevelopment Project	Claremont Unified School District	Citrus Community College District
Community Development Commission of the County of Los Angeles	West Altadena Community Redevelopment Project	Pasadena Unified School District	Pasadena Area Community College District

<sup>1</sup> Also known as Alcosta/Crow Canyon Area.

<sup>2</sup> Also known as Parlier Redevelopment Project No. 1.

<sup>3</sup> Also known as Sanger Redevelopment Project No. 1.



County/Redevelopment Agency	Project Area	School District	Community College District
<u>Los Angeles County</u> (Continued)			
Monterey Park Community Redevelopment Agency	Central Commercial Redevelopment Project	Alhambra School District Garvey School District	Los Angeles Community College District
Norwalk Redevelopment Agency	Norwalk Redevelopment Project No. 2	ABC Unified School District Little Lake City School District Norwalk-La Mirada Unified School District Whittier Union High School District	Cerritos Community College District Rio Hondo Community College District
<u>Riverside County</u>			
Riverside County Redevelopment Agency	Redevelopment Project No. 2-1987	Jurupa Unified School District	Riverside Community College District
	Redevelopment Project No. 4 (Supervisory District 4)	Coachella Valley Unified School District Desert Sands Unified School District Palm Springs Unified School District Palo Verde Unified School District	Desert Community College District <sup>4</sup> Palo Verde Community College District
The Redevelopment Agency of the City of Indio	Date Capital Redevelopment Project	Desert Sands Unified School District	Desert Community College District
Palm Desert Redevelopment Agency	Redevelopment Project Area No. 2	Palm Springs Unified School District Desert Sands Unified School District	Desert Community College District
Community Redevelopment Agency of the City of Palm Springs	Baristo-Farrell Redevelopment Project	Palm Springs Unified School District	Desert Community College District
<u>San Joaquin County</u>			
Manteca Redevelopment Agency	Project Area No. 1	Manteca Unified School District	San Joaquin Delta Community College District
<u>Yolo County</u>			
Redevelopment Agency of the City of West Sacramento	Redevelopment Project No. 1	Washington Unified School District	Los Rios Community College District

<sup>4</sup> Formerly known as Coachella Valley Community College District.

## Appendix D

### Amounts Paid to Trust Funds for School and Community College Districts in Riverside County Under Health and Safety Code, Section 33401 Fiscal Years 1987-88 Through 1989-90

	1987-88	1988-89	1989-90
<u>Baristo-Farrell Redevelopment Project</u>			
Palm Springs Unified School District	\$ 11,500	\$ 18,400	\$ 42,000
Desert Community College District	3,300	5,200	12,000
<u>Date Capital Redevelopment Project</u>			
Desert Sands Unified School District <sup>a</sup>	121,000	182,800	214,100
<u>Palm Desert Redevelopment Project Area No. 2</u>			
Desert Sands Unified School District	NA	0 <sup>b</sup>	0 <sup>b</sup>
Palm Springs Unified School District	NA	0 <sup>b</sup>	0 <sup>b</sup>
Desert Community College District	NA	0 <sup>b</sup>	0 <sup>b</sup>
<u>Riverside County Redevelopment Project No. 2-1987</u>			
Jurupa Unified School District	NA	7,600 <sup>c</sup>	14,700 <sup>c</sup>
Riverside Community College District	NA	1,000 <sup>c</sup>	1,900 <sup>c</sup>
<u>Riverside County Redevelopment Project No. 4</u>			
Coachella Valley Unified School District	22,000	36,800	66,900
Desert Sands Unified School District	2,200	5,200	5,800
Palm Springs Unified School District	1,300 <sup>c</sup>	7,200 <sup>c</sup>	13,300 <sup>c</sup>
Palo Verde Unified School District	2,000	2,300	6,000
Desert Community College District	4,200 <sup>c</sup>	8,700 <sup>c</sup>	13,800 <sup>c</sup>
Palo Verde Community College District	300	1,200	1,100
<b>Total</b>	<b>\$167,800</b>	<b>\$276,400</b>	<b>\$391,600</b>

Note: NA is used when the redevelopment agency's project area was not yet eligible to receive tax increment revenue.

<sup>a</sup> Although the district and the redevelopment agency have a draft agreement in writing, the agreement for Section 33401 funds has not yet been signed. The redevelopment agency has paid the amount shown into a trust fund.

<sup>b</sup> Under the terms of the agreements between the Palm Desert Redevelopment Project Area No. 2 and the districts, the tax increment revenue generated by the project area was not large enough for the districts to be entitled to receive money.

<sup>c</sup> Estimated payments based on data from the auditor-controller. Because the county auditor-controller maintained records of payments by district and did not maintain breakdowns of payments by project area, we could not determine actual payments to these districts that received money from more than one project area managed by the Riverside County Redevelopment Agency. These estimates do not include revenue from supplemental billings.

## Appendix E

### Trust Fund Agreements Between Redevelopment Agencies and School and Community College Districts in Riverside County

	Amount To Be Deposited in Trust Fund	Allowable Uses of Trust Fund Money
<u>Riverside County</u>		
<u>Redevelopment Agency</u>		
Redevelopment Project No. 4 Palm Springs Unified School District Desert Sands Unified School District Coachella Valley Unified School District Palo Verde Unified School District Desert Community College District Palo Verde Community College District	The districts will receive 29.62 percent of their proportional share of the tax increment revenues from the redevelopment project.	Capital projects for schools including construction and improvements to school facilities, or other uses as agreed upon by the district and the redevelopment agency.
Redevelopment Project No. 2-1987 Jurupa Unified School District Riverside Community College District		
<u>Palm Desert</u>		
<u>Redevelopment Agency</u>		
Redevelopment Project Area No. 2 Palm Springs Unified School District Desert Sands Unified School District Desert Community College District	After the tax increment revenues, less specified deductions, exceed \$3 million, the districts will receive 50 percent of their proportional share of the total tax increment revenues from the redevelopment project.	Capital projects for schools, including construction and improvements to school facilities.
<u>Community Redevelopment Agency of the City of Palm Springs</u>		
Baristo-Farrell Redevelopment Project Palm Springs Unified School District Desert Community College District	The districts will receive 50 percent of their proportional share of the total tax increment revenues from the project area.	Capital projects for schools, including construction and improvements to school facilities, or other uses as agreed upon by the district and the redevelopment agency.

## Appendix F

### Amounts Payable for the Benefit of School and Community College Districts Under Health and Safety Code, Section 33401 Fiscal Years 1987-88 Through 1989-90

	1987-88	1988-89	1989-90
<u>Fresno County</u>			
Mendota Redevelopment Project No. 2 Mendota Unified School District	NA	NA	\$ 5,000 <sup>a</sup>
<u>Los Angeles County</u>			
Sierra Vista Redevelopment Project Baldwin Park Unified School District	\$2,800	\$ 5,500	8,300
Central Commercial Redevelopment Project			
Alhambra School District	NA	4,400	9,000
Los Angeles Community College District	NA	700	2,100 <sup>b</sup>
<b>Total</b>	<b>\$2,800</b>	<b>\$10,600</b>	<b>\$24,400</b>

Note: NA is used when the district was not eligible to receive payments from a redevelopment project area.

<sup>a</sup> This amount includes \$4,700 that the Mendota Redevelopment Agency agrees to use for improvements designated by the school district.

<sup>b</sup> This does not include \$6,600 of deferred payments.

## Appendix G

### Tax Increment Revenues Received by School and Community College Districts Under Health and Safety Code, Section 33676 Fiscal Years 1987-88 Through 1989-90

	1987-88	1988-89	1989-90
<u>Contra Costa County</u>			
San Ramon Redevelopment Project Area			
Contra Costa Community College District	NA	\$ 2,200	\$ 2,500
North Richmond Redevelopment Project Area			
Richmond Unified School District	NA	0	2,200
Contra Costa Community College District	NA	0	300
West Pittsburg Redevelopment Project Area			
Contra Costa Community College District	NA	NA	1,300
<u>Fresno County</u>			
Huron Redevelopment Project Area			
Coalinga-Huron Unified School District	\$ 1,200	3,400	4,600
Parlier Redevelopment Project Area			
Parlier Unified School District	2,900	1,900	4,200
State Center Community College District	500	300	600
<u>San Joaquin County</u>			
Manteca Project Area No. 1			
Manteca Unified School District	200	700	1,000
San Joaquin Delta Community College District	200	700	1,000
<u>Yolo County</u>			
West Sacramento Redevelopment Project No. 1			
Washington Unified School District	61,900	92,100	122,500
Los Rios Community College District	9,200	13,600	18,200
<b>Total</b>	<b>\$76,100</b>	<b>\$114,900</b>	<b>\$158,400</b>

Notes: NA is used when the redevelopment agency's project area was not yet eligible to receive tax increment revenues.

In their reports to the State, county auditor-controllers do not report Section 33676 funds separately from property taxes. We have calculated these amounts based on information provided by the auditor-controllers.

## Appendix H

### Estimated Tax Increment Revenues That School and Community College Districts Could Have Received Under Health and Safety Code, Section 33676 Fiscal Years 1987-88 Through 1989-90

	Fiscal Year 1987-88	Fiscal Year 1988-89	Fiscal Year 1989-90	Total Over Life of the Project
<u>Contra Costa County</u>				
Danville Downtown Redevelopment Project Area				
Contra Costa Community College District	\$ 700	\$ 1,400	\$ 2,100	\$ 392,200
San Ramon Valley Unified School District	5,300	10,700	16,200	3,017,800
San Ramon Redevelopment Project Area				
San Ramon Valley Unified School District	NA	16,400	33,100	23,193,200
West Pittsburg Redevelopment Project Area				
Pittsburg Unified School District	NA	NA	400	465,000
Mount Diablo Unified School District	NA	NA	9,500	10,271,700
<u>Fresno County</u>				
Huron Redevelopment Project Area				
West Hills Community College District	300	600	1,000	446,000
Mendota Redevelopment Project No. 2				
West Hills Community College District	NA	NA	0	32,300
Sanger Redevelopment Project Area <sup>1</sup>				
Sanger Unified School District	11,000	12,500	15,200	3,419,000
State Center Community College District	1,800	2,100	2,500	569,900

Note: NA is used when the redevelopment project area generated no tax increment revenue and no money could have been paid.

<sup>1</sup> Although the Sanger Redevelopment Project Area was established before the Health and Safety Code required school and community college districts to elect to receive Section 33676 funds, we include in this appendix the amounts the Sanger Unified School District and the State Center Community College District could have received if they had elected to receive those funds.

	Fiscal Year 1987-88	Fiscal Year 1988-89	Fiscal Year 1989-90	Total Over Life of the Project
<u>Los Angeles County</u>				
Sierra Vista Redevelopment Project				
West Covina Unified School District	100	300	400	81,500
Mount San Antonio Community College District	400	900	1,300	242,000
Norwalk Redevelopment Project No. 2				
ABC Unified School District	NA	\$ 500	\$ 1,000	\$ 395,800
Little Lake City School District	NA	0	100	32,900
Norwalk-La Mirada Unified School District	NA	1,800	3,600	1,444,100
Whittier Union High School District	NA	100	200	60,000
Cerritos Community College District	NA	300	600	239,100
Rio Hondo Community College District	NA	0	0	9,000
Foothill Corridor Redevelopment Project				
Claremont Unified School District	\$ 2,200	4,400	6,600	1,229,200
Citrus Community College District	200	500	700	129,900
West Altadena Community Redevelopment Project				
Pasadena Unified School District	700	1,400	2,100	986,800
Pasadena Area Community College District	100	200	400	164,400
Central Commercial Redevelopment Project				
Garvey School District	NA	200	500	180,000
<u>Riverside County</u>				
Date Capital Redevelopment Project				
Desert Community College District	4,300	6,300	8,500	2,226,800
<b>Total</b>	<b>\$27,100</b>	<b>\$60,600</b>	<b>\$106,000</b>	<b>\$49,228,600</b>

Note: NA is used when the redevelopment project area generated no tax increment revenue and no money could have been paid.

## Appendix I

### Tax Increment Revenues Received by School and Community College Districts and Offset Against State Aid Fiscal Years 1987-88 Through 1989-90

	1987-88	1988-89	1989-90
<u>Contra Costa County</u>			
Richmond Unified School District	NA	0	\$ 2,200
Contra Costa Community College District	NA	\$ 2,200	4,100
<u>Fresno County</u>			
Coalinga-Huron Unified School District	\$ 1,200	3,400	4,600
Parlier Unified School District	2,900	1,900	4,200
State Center Community College District	500	300	600
<u>San Joaquin County</u>			
Manteca Unified School District	200	700 <sup>a</sup>	2,900 <sup>a</sup>
San Joaquin Delta Community College District	200	800 <sup>a</sup>	3,100 <sup>a</sup>
<u>Yolo County</u>			
Washington Unified School District	61,900	92,100	122,500
Los Rios Community College District	9,200	13,600	18,200
<b>Total Reported</b>	<b>\$76,100</b>	<b>\$115,000</b>	<b>\$162,400</b>

Note: NA is used when the school or community college district was not yet eligible to receive tax increment revenues.

In their reports to the State, the county auditor-controllers do not report Section 33676 funds separately from property taxes. We calculated these amounts based on information provided by the auditor-controllers.

<sup>a</sup> These figures include Section 33401 payments which were made in error by the San Joaquin County auditor-controller. The total amount in error for the Manteca Unified School District was \$2,000. The total amount in error for the San Joaquin Delta Community College District was \$2,100.



CALIFORNIA COMMUNITY COLLEGES

1107 NINTH STREET  
SACRAMENTO, CALIFORNIA 95814  
(916) 445-8752



December 11, 1990

Kurt R. Sjoberg  
Acting Auditor General  
660 J Street, Suite 600  
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to respond to your draft report "A Review of Tax Increment Revenues Provided to School and Community College Districts from Redevelopment Project Areas". In general, there doesn't appear to be any responsible governing or regulatory body to prescribe uniform requirements or provide oversight with regards to redevelopment projects and tax increment revenue.

As stated in your draft, revenues allocated pursuant to Section 33401 of the Health and Safety Code in our opinion would not constitute local property taxes for the purpose of offset in the calculation of State General Apportionment; however, revenues allocated pursuant to Section 33676 would constitute local property taxes pursuant to Education Code Section 84700 (b). We do not differ with the Attorney General's opinion since it was not based on an interpretation of the applicable Education Code section for community colleges. ①

The following is offered in response to your recommendations:

Chapter 1 Recommendation: To ensure that tax increment revenues are calculated correctly, the California Department of Education and the California Community Colleges should notify all county auditor-controllers that tax increment revenues that districts receive under Section 33676 of the Health and Safety Code should be based upon the difference between the base year assessed value adjusted for inflation (up to two percent per year) and the base year assessed value.

Response to Chapter 1 Recommendation: This agency has no authority to prescribe to county auditor-controllers the accounting for tax increment revenue; however, county auditor-controllers are required to furnish this agency "...the actual previous year's receipts, along with estimated current year receipts for secured tax receipts, unsecured tax receipts, prior year tax receipts, timber tax receipts, and any other appropriate taxes or subventions for each community college district or portion of a district situated within his or her county..." on forms prescribed by this agency (Education Code Section 84207).

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① The Office of the Auditor General's comment: The report has been changed to reflect this comment.

In carrying out our responsibility, this agency will include information on the Auditor General's citing with forms sent to county auditor-controllers. In addition, we will provide the same information to each community college district through correspondence to district chief business officers.

Chapter 2 Recommendation: To ensure that the school and community college districts receive tax increment revenues, the Legislature should amend Section 33676 of the Health and Safety Code. Specifically, the law should require school and community college districts to be allocated tax revenues when a redevelopment project area is established, unless the district has an agreement to receive tax increment revenues under Section 33401 or elects not to receive funds under Section 33676.

Response to Chapter 2 Recommendation: This agency agrees to the recommendation that community college districts should automatically receive tax increment revenues pursuant to Section 33676; however, the Legislature should also consider amending Section 33676 to eliminate the waiver provision. There should be no waiver provision that allows any school or community college district to receive tax increment revenue pursuant to Section 33401 in lieu of that under Section 33676. Our position is that revenues received pursuant Section 33676 are local property tax revenue subject to offset in the calculation of State General Apportionment and the present authorization allows districts to avoid that by agreement to receive revenue pursuant to Section 33401. As a result, the State is obligated, subject to availability of funds, to make up the loss with State funds through the apportionment process.

Chapter 3 Recommendations: To resolve the difference of opinions concerning the reporting of funds received under Section 33676 of the Health and Safety Code, the legislature should clarify whether funds received under Section 33676 should offset a district's general apportionment.

To ensure that tax increment revenues are calculated correctly, the California Department of Education and the California Community Colleges should jointly develop consistent instructions on how the county auditor-controllers should report tax increment revenues to the State under Sections 33401 and 33676 of the Health and Safety Code.

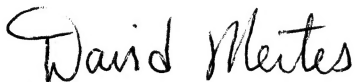
Response to Chapter 3 Recommendations: This agency does not believe it has a difference of opinion with the Attorney General since his opinion was not based on an interpretation of Subsection (b) of Education Code Section 84700. ②

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② The Office of the Auditor General's comment: The report has been changed to reflect this comment.

As mentioned in our response to Chapter 1's recommendation, this agency does not have the authority to prescribe how county auditor-controllors account for tax increment revenue. Data on tax increment revenue are now reported to the State Controller's which is then published in the report "Annual Report of Financial Transactions Concerning Community Redevelopment Agencies of California". We will provide information on the Auditor General's citing on the calculation of revenues to be allocated pursuant to Section 33676 of the Health and Safety Code, and that such revenues are to be reported as local property tax revenues for the purpose of offset in the calculation of State General Apportionment to all community college districts by correspondence with district chief business officers with copies to county auditor-controllors.

Sincerely,



David Mertes  
Chancellor

DM:GLC:tj

cc: Thomas Nussbaum  
Joseph Newmyer  
Gary L. Cook



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**CALIFORNIA STATE DEPARTMENT OF EDUCATION**

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**Bill Honig****721 Capitol Mall; P.O. Box 944272****Superintendent****Sacramento, CA 94244-2720**

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**of Public Instruction**

December 11, 1990

Kurt Sjoberg, Acting Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

P-023

Dear Mr. Sjoberg:

Thank you for the opportunity to review the draft report titled "A Review of Tax Increment Revenues Provided to School and Community College Districts From Redevelopment Project Areas". We appreciate the work your staff performed in reviewing the tax increment revenues received by school and community college districts during fiscal years 1987-88, 1988-89 and 1989-90.

The California Department of Education will work with the Chancellor's Office of the California Community Colleges to develop recommendations on how the county auditor-controllers should report tax increment revenues to the State under Sections 33401 and 33676 of the Health and Safety Code. The recommendations will include a statement that tax increment revenues under Section 33676 should be based upon the difference between the base year assessed value adjusted for inflation (up to two percent per year) and the base year assessed value.

If you have any questions, contact Peggy Peters, Acting Audit Response Coordinator, at 324-2558.

Sincerely,

A handwritten signature in black ink, appearing to read "William D. Dawson", is written over the typed name.

William D. Dawson  
Executive Deputy Superintendent

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps